Capital Financial Holdings, Inc
Form 10-Q
August 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number: 0-25958

CAPITAL FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

North Dakota (State or other jurisdiction of incorporation or organization)	45-0404061 (I.R.S. Employer Identification No.)

1 Main Street North
Minot, North Dakota 58703
(Address of principal executive offices) (Zip code)

(701) 837-9600
(Registrant's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2013, there were 14,455,943 common shares of the issuer outstanding. On July 15, 2013 the Company filed Articles of Amendment with the North Dakota Secretary of State effecting a 10,000 to 1 reverse stock split. As a result of that filing and after that date the Company had approximately 1,445 shares of common stock outstanding pending FINRA approval.

FORM 10-Q

CAPITAL FINANCIAL HOLDINGS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	(Unaudited) June 30, 2013	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	$1,546,003	$1,221,606
Accounts receivable (net of an allowance of $24,000 for 2013 and 2012)	1,683,861	1,308,157
Deferred tax asset – current	15,849	8,933
Prepaids	19,226	38,077
Total current assets	$3,264,939	$2,576,773
PROPERTY AND EQUIPMENT		
Property and equipment	$346,098	$328,347
Less accumulated depreciation	(291,249)	(279,485)
Net property and equipment	$54,847	$48,862
OTHER ASSETS		
Goodwill	$2,132,026	$2,132,026
Severance escrow	257,282	254,196
Deferred tax asset – non-current	516,367	539,132
Other assets (net of accumulated amortization of $214,444 for 2013 and 2012)	180,663	225,890
Total other assets	$3,086,338	$3,151,244
TOTAL ASSETS	$6,406,124	$5,776,879

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) June 30, 2013	December 31, 2012
CURRENT LIABILITIES		
Accounts payable	$213,425	$172,390
Commissions payable	1,669,928	1,301,194
Other current liabilities	340,180	99,320
Current portion of long-term liabilities	-	125,668
Total current liabilities	$2,223,533	$1,698,572
LONG-TERM LIABILITIES		
Promissory note	-	67,173
Other long-term liabilities	22,000	-
Total long-term liabilities	$22,000	$67,173
TOTAL LIABILITIES	$2,245,533	$1,765,745
STOCKHOLDERS' EQUITY		
Series A preferred stock – 5,000,000 shares authorized, $.0001 par value;		
3,050,000 and 3,050,000 shares issued and 0 outstanding, respectively	$305	$305
Additional paid in capital – series A preferred stock	1,524,695	1,524,695
Common stock – 1,000,000,000 shares authorized, $.0001 par value;		
14,455,943 and 14,455,943 shares issued and outstanding, respectively	1,446	1,446
Additional paid in capital – common stock	10,446,302	10,446,302
Accumulated deficit	(6,512,157)	(6,661,614)
Less Treasury stock, 3,050,000 preferred shares at $0.4262	(1,300,000)	(1,300,000)
TOTAL STOCKHOLDERS' EQUITY	$4,160,591	$4,011,134
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,406,124	$5,776,879

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended June 30, 2013	2012
OPERATING REVENUES		
Fee income	$291,015	234,730
Commissions	4,836,778	4,580,968
Interest and other income	115,291	51,277
Total revenue	$5,243,084	4,866,975
OPERATING EXPENSES		
Compensation and benefits	$358,533	312,404
Commission expense	4,371,095	4,129,532
General and administrative expenses	274,604	281,543
Depreciation and amortization	6,442	7,039
Total operating expenses	$5,010,674	4,730,518
OPERATING INCOME (LOSS)	$232,410	136,457
OTHER INCOME (EXPENSES)		
Interest expense	$-	(4,160)
INCOME (LOSS) OF CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	232,410	132,297
INCOME TAX BENEFIT (EXPENSE)	$(88,677)	(41,980)
NET INCOME (LOSS)	$143,733	90,317
NET INCOME PER COMMON SHARE:		
Basic	$.00	.00
Diluted	$.00	.00
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic	14,455,943	14,455,943
Diluted	14,455,943	14,455,943

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Six Months Ended June 30, 2013	2012
OPERATING REVENUES		
Fee income	$520,600	494,036
Commissions	9,946,645	8,445,856
Interest and other income	237,979	87,861
Total revenue	$10,705,224	9,027,753
OPERATING EXPENSES		
Compensation and benefits	$658,881	575,665
Commission expense	9,129,645	7,699,448
General and administrative expenses	641,644	731,513
Depreciation and amortization	13,047	21,931
Goodwill impairment	-	314,531
Total operating expenses	$10,443,217	9,343,089
OPERATING INCOME (LOSS)	$262,006	(315,335)
OTHER INCOME (EXPENSES)		
Interest expense	$(3,907)	(25,928)
INCOME (LOSS) OF CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	258,100	(341,263)
INCOME TAX BENEFIT (EXPENSE)	$(108,644)	33,786
NET INCOME (LOSS)	$149,456	(307,477)
NET INCOME PER COMMON SHARE:		
Basic	$.01	(.02)
Diluted	$.01	(.02)
SHARES USED IN COMPUTING NET PER COMMON SHARE:		
Basic	14,455,943	14,455,943
Diluted	14,455,943	14,455,943

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CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$149,456	(307,477)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	11,764	21,931
Goodwill impairment	-	314,531
Loss on disposal of assets	-	69,469
Provision for income taxes	15,849	(26,557)
(Increase) decrease in:		
Accounts receivable	(375,704)	2,896
Prepaids & other	64,082	53,683
Severance escrow	(3,086)	(24,501)
Accounts payable	41,035	3,310
Commissions payable	368,734	80,142
Other liabilities	240,859	78,399
Net cash provided by operating activities	$512,989	265,826
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	$(17,751)	(3,908)
Proceeds from sale of building	-	931,245
Net cash (used in) provided by investing activities	$(17,751)	927,337
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term liability	(125,668)	(61,590
Increase in Settlements payable	22,000	
Repayment of promissory note	(67,173)	(1,048,235)
Net cash used in financing activities	$(170,841)	(1,109,825)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$324,397	83,338
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$1,221,606	929,030
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,546,003	1,012,368

SEE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL FINANCIAL HOLDINGS, INC., AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2013 and 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Capital Financial Holdings, Inc., a North Dakota corporation, and its subsidiary (collectively, the "Company"), included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the footnotes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2012, of Capital Financial Holdings, Inc., as filed with the SEC. The condensed consolidated balance sheet at December 31, 2012, contained herein, was derived from audited financial statements, but does not include all disclosures included in the Form 10-K and applicable under accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, but not required for interim reporting purposes, have been condensed or omitted.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which are of a normal, recurring nature) necessary for a fair presentation of the financial statements. The results of operations for the three months ended June 30, 2013, are not necessarily indicative of operating results for the entire year.

NOTE 2 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

A summary of our significant accounting policies is included in Note 1 on pages 10 and 11 of our 2012 Form 10-K.

The Company adopted ASC 820-10, Fair Value Measurements and Disclosures, for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of ASC 820-10 did not have a material impact on the Company’s condensed consolidated financial statements.

The Company adopted ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 simplifies how an entity tests indefinite-lived intangibles assets other than goodwill for impairment. Another objective of ASU 2012-02 is to improve the consistency of impairment testing guidance among long-term asset categories. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 did not have a material impact on the Company’s condensed consolidated financial statements.

The Company adopted ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Topic 740, Income Taxes, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. The objective of the amendments in this Update is to eliminate that diversity in practice. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013. The adoption of ASU 2013-11 did not have a material impact on the Company’s condensed consolidated financial statements.

The Company adopted ASU 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013. The adoption of ASU 2013-07 did not have a material impact on the Company's condensed consolidated financial statements.

NOTE 3 - RECLASSIFICATION

Certain amounts in the 2012 condensed consolidated financial statements have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on the Company's net income (loss).

NOTE 4 - BUSINESS ACQUISITIONS

On March 7, 2007, the Company acquired certain assets of United Heritage Financial Services, Inc. (UHFS), a wholly owned subsidiary of United Heritage Financial Group, Inc., of Meridian, Idaho. UHFS had approximately 120 independent registered representatives who became part of Capital Financial Services, Inc. (CFS), the retail brokerage division of the Company. Pursuant to the agreement, in exchange for receipt of the assets of UHFS set forth above, the Company agreed to issue 500,000 restricted CFH shares and pay a deferred cash earn out payment totaling a maximum of $900,000, to be paid in 21 quarterly installments. As of June 30, 2013 the Company had made twenty-one quarterly installment payments. There is no longer a liability relating to this acquisition as of June 30, 2013. Due to the goodwill impairment charge that was recorded on December 31, 2010 and March 31, 2012(See Note 5-Goodwill), as of June 30, 2013 the total goodwill recorded relating to this acquisition was $456,410.

NOTE 5 - GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2013, are as follows:

Balance as of January 1, 2013	$2,132,026
Impairment loss on goodwill	-
Goodwill acquisition price adjustment during the period (See Note 4)	-
Balance as of June 30, 2013	$2,132,026

The Company’s goodwill represents the excess of purchase prices over the fair value of the identifiable net assets of previously acquired broker/dealer businesses. The goodwill is not amortized; instead it is tested for impairment annually or more frequently if the fair value of a reporting unit is below its carrying value. Absent any impairment indicators, the Company performs its annual goodwill impairment testing as of June 30 of each year.

The Company’s policy is to test goodwill for impairment using a fair value approach at the reporting unit level. The Company performs its goodwill impairment test in two steps. Step one compares the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the unit determined in step one is lower than its carrying value, the Company proceeds to step two, which then compares the carrying value of goodwill to its implied fair value. Any excess of carrying value of goodwill over its implied fair value at a reporting unit is recorded as impairment.

The valuation methodology the Company utilizes in testing the Company’s goodwill for impairment is based on the income approach. The income approach is based on a discounted cash flow methodology in which expected future net cash flows are discounted to present value, using a discounted rate that compensates for the risk in attaining the projected cash flows. This approach is dependent upon a number of significant management estimates about future performance including but not limited to, market performance, income taxes, capital spending and working capital changes.

The Company tests goodwill for impairment annually during the second quarter of each fiscal year. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill will be evaluated for impairment between annual tests. There were no events that occurred nor a change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying value during the second quarter in 2013. Therefore, the second step of testing for impairment was not required.

NOTE 6 – PROMISSORY NOTE

On October 21, 2011, the Company issued a promissory note to PawnMart, Inc. in exchange for the repurchase of the 3,050,000 shares of preferred stock. The note carries an interest rate of 7%, with quarterly payments of $66,801. On March 30, 2012 the Company revised the agreement with PawnMart, Inc. to release the building as security on the original note. The Company made a payment of $925,922. In April of 2012, the Company made a $100,000 payment. The Company was to make quarterly payments of $34,000 with the last payment being $34,965 until maturity April 1, 2014. On March 1, 2013, the Company made a payment of $118,000. On March 28, 2013 the Company paid the promissory note in full plus accrued interest for a total payment of $46,353. Interest expense on this note was $5,512 in 2013 and $31,826 in 2012. There is no longer a liability related to this note.

NOTE 7 - EARNINGS PER SHARE

Basic earnings per share are computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common shares had been converted to common shares. The following reconciles amounts reported in the financial statements:

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Numerator	Denominator	Per Share Amount	Numerator	Denominator	Per Share Amount
Net (Loss) Income	$143,733			90,317		
Less: Preferred Stock Dividends						
Income Available to Common Shareholders – Basic Earnings per Share	$143,733	14,455,943	.00	90,317	14,455,943	$.00
Effect of Dilutive Securities:						
Preferred Stock Dividends						
Stock Options and Warrants						
Income Available to Common Shareholders – Diluted Earnings per Share	$143,733	14,455,943	.00	90,317	14,455,943	$.00

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Numerator	Denominator	Per Share Amount	Numerator	Denominator	Per Share Amount
Net (Loss) Income	$149,456			(307,477)		
Less: Preferred Stock Dividends						
Income Available to Common Shareholders – Basic Earnings per Share	$149,456	14,455,943	.01	(307,477)	14,455,943	$(.02)
Effect of Dilutive Securities:						
Preferred Stock Dividends						
Stock Options and Warrants						
Income Available to Common Shareholders – Diluted Earnings per Share	$149,456	14,455,943	.01	(307,477)	14,455,943	$(.02)

Options and warrants to purchase 7,486,113 common shares at exercise prices between $0.35 and $1.43 were outstanding at March 31, 2013, but were not included in the computation of diluted earnings per share for the quarter ending June 30, 2013, because their effect was anti-dilutive.

NOTE 8 – FAIR VALUE DISCLOSURES

The Company has adopted a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value in three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The application of valuation techniques applied to similar assets and liabilities has been consistently applied. The following is a description of the valuation methodologies used for instruments measured at fair value:

On February 12, 2009, CFS entered into a settlement agreement with a client, which resulted in CFS purchasing the client's investment in the Omega 2007 Drilling Program 1, LP. This limited partnership carries a "presentment" feature which allows CFS to sell the investment to the General Managing Partner of the limited partnership; and this feature has become available. CFS had determined, based off of information provided by the Limited Partnership that the fair market value of the $76,876 investment was estimated at $45,000 based on discounted cash flows at the time of purchase by CFS. Since then, CFS has determined, based off of information provided by the Limited Partnership that, as of March 19, 2013, the fair market value of this $76,876 investment is estimated to be $12,214 based on discounted cash flows; however this amount could fluctuate with the prices of oil and natural gas. This investment is included in other assets on the balance sheet. In May of 2013, CFS opted to exercise the "presentment"feature and was paid the current value of the investment in the amount of $11,922,98. As of June 17, 2013, this investment is no longer an asset of CFS.

The Company has accumulated cash for the possible future payments of severance and benefits for senior management, should they leave. This is an accrual the company has elected to set aside for possible future obligations. These funds are reflected as Severance Escrow on the balance sheet, and consist of cash accounts.

	Carrying Value at June 30, 2013				Quarter ended June 30, 2013 Total Losses
	Total	Level 1	Level 2	Level 3	
Other Investment	$-	$-	$-	$-	$-
Severance Escrow	257,282	257,282			

	Carrying Value at June 30, 2012				Quarter ended June 30, 2012 Total Losses
	Total	Level 1	Level 2	Level 3	
Other Investment	$45,000	$-	$-	$ 45,000	$-

Severance Escrow	254,069	254,069

Reconciliation of Level 3 Balances:

Balance as of January 1, 2012	$45,000
Loss on other investment	-
Balance as of December 31, 2012	45,000
Distributions	11,923
Loss on other investment	33,077
Balance as of June 30, 2013	$-

NOTE 9 – LEGAL PROCEEDINGS

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration and regulatory investigations. Issuers of certain alternative products sold by the Company are in Chapter 11 Bankruptcy or may have other financial difficulties. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to several legal and/or arbitration proceedings. These proceedings include customer suits and arbitrations related to the bankruptcy of the KH Funding Company, and the bankruptcy proceedings of the various DBSI entities RMC Medstone and Cole Credit Property Trust. The Company vigorously contests the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and as such, the Company is unable to estimate the possible loss or range of loss that may result from the outcome of these cases; however, results in these cases that are against the interests of the Company could have a severe negative impact on the financial position of the Company. At June 30, 2013, the Company is a defendant in three on-going suits and arbitrations as discussed above. The Company expects any possible settlement, if any, to be below the maximum limits of coverage under our liability insurance policy and any amounts of shared coverage by the Company, to the insurance Company is not material to the financial statements. However, the Company expects to prevail in these cases. During 2012, the Company settled lawsuits that will require $44,000 in payments during 2013 and 2014. During the second quarter of 2013, an agreement for one of the arbitrations mentioned above was reached. On May 7, 2013, the Company made payment of approximately $19,000 to their insurance provider in order to satisfy this agreement. No further payments will be required on the aforementioned settled lawsuits.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Capital Financial Holdings, Inc. derives the majority of its revenues and net income from sales of mutual funds, insurance products, and various other securities through Capital Financial Services, Inc. ("CFS"), the Company's broker-dealer subsidiary.

The Company has been engaged in the financial services business since 1987. The Company was incorporated September 22, 1987, as a North Dakota corporation. The Company's principal offices are located at 1 Main Street North, Minot, North Dakota 58703. As of June 30, the Company had 17 full-time employees and 2 part-time employees consisting of officers, securities distribution, data processing, compliance, accounting, and clerical support staff.

CFS is a full-service brokerage firm. CFS is registered with the SEC as an investment advisor and broker-dealer and also with FINRA as a broker-dealer. CFS specializes in providing investment products and services to independent investment representatives, financial planners, and investment advisors and currently supports over 216 investment representatives and investment advisors.

RESULTS OF OPERATIONS

	Three Months Ended March 31,	Six Months Ended June 30,

	2013	2012	2013	2012
Net income (loss)	143,733	90,316	149,456	(307,477)
Income per share:				
Basic	.00	.00	.01	(.02)
Diluted	.00	.00	.01	(.02)

The Company reported net income for the quarter ended June 30, 2013, of $143,733, compared to net income of $90,317 for the same quarter in 2012. The Company reported net income of $149,456 for the six months ended June 30, 2013, compared to a net loss of $307,477 during the same period in 2012.

Operating revenues

Total operating revenues for the quarter ended June 30, 2013 were $5,243,084, an increase of 8% from $4,866,975 for the quarter ended June 30, 2012. Total operating revenues for the six month period ended June 30, 2013 were $10,705,224, an increase of 19% from $9,027,753 during the same period in 2012. The increases for the three and six month periods resulted primarily from increases in commission income received by CFS, the Company's broker-dealer division.

Fee Income

Fee income for the quarter ended June 30, 2013 was $291,015, an increase of 24% from $234,730 for the quarter ended June 30, 2012. Fee income for the six month period ended June 30, 2013 was $520,600, an increase of 5% from $494,036 during the same period in 2012. The increases were due to an increase in fee income received by CFS, as a result of higher values of client assets under management.

The Company earns investment advisory fees in connection with CFS' registered investment advisor. The Company pays the registered representatives a portion of this fee income as commission expense and retains the balance. These fees constituted 5% of the Company's consolidated revenues for 2013.

Commission Income

Commission income includes CFS commissions. The Company pays the registered representatives a percentage of this income as commission expense and retains the balance. Commission income for the quarter ended June 30, 2013 was $4,836,778, an increase of 6% from $4,580,968for the quarter ended June 30, 2012. Commission income for the six month period ended June 30, 2013 was $9,946,645, an increase of 18% from $8,445,856 during the same period in 2012. The increases were due primarily to the increase in commissions received by CFS due to market conditions. Commission revenues constituted 93% of the Company's consolidated revenues for 2013.

Other income

Interest and other income for the quarter ended June 30, 2013 was $115,291, an increase of 125% from $51,277 for the quarter ended June 30, 2012. Interest and other income for the six month period ended June 30, 2013 was $237,979, and increase of 171% from $87,861 during the same period in 2012. The increases were due to an increase in the marketing income received related to alternative investment products. Interest and other income constituted 2% of the Company's consolidated revenues for the three months ended June 30, 2013.

Operating expenses

Total operating expenses for the quarter June 30, 2013 were $5,010,674, an increase of 6% from $4,730,518 for the quarter ended June 30, 2012. Total operating revenues for the six month period ended June 30, 2013 were $10,443,217, and increase of 19% from $9,343,089 during the same period in 2012. The increases resulted from the net increase in the expense categories described below.

Compensation and benefits

Compensation and benefits expense for the quarter ended June 30, 2013 was $358,533, an increase of 15% from $312,404 for the quarter ended June 30, 2012. Compensation and benefits expense for the six month period ended June 30, 2013 was $658,881, and increase of 15% from $575,665 during the same period in 2012. The increases resulted from an increase in wages and benefits to employees and payroll taxes.

Commission expense

Commission expense for the quarter ended June 30, 2013 was $4,371,095, an increase of 6% from $4,129,532 for the quarter ended June 30, 2012. Commission expense for the six month period ended June 30, 2013 was $9,129,645, and increase of 16% from $7,699,448 during the same period in 2012. The increase in commission expense corresponds with the increase in commission income for the quarter and six month period.

General and administrative expense

Total general and administrative expenses for the quarter ended June 30, 2013 were $274,604, a decrease of 2% from $281,543 for the quarter ended June 30, 2012. Total general and administrative expenses for the six month period ended June 30, 2013 were $641,644, a decrease from $731,513 during the same period in 2012. The decreases were due primarily to a decrease in the legal expenses incurred through litigation costs, outside professional services, the due diligence expenses, the dues & subscription expenses and expenses no longer applicable in 2013 due to the sale of the building in 2012.

Depreciation and amortization

Depreciation and amortization expense for the quarter ended June 30, 2013 was $6,442, a decrease of 8% from $7,039 for the quarter ended June 30, 2012. Depreciation and amortization expense for the six month period ended June 30, 2013 was $13,047, a decrease of 41% from $21,931 during the same period in 2012. The primary difference corresponds with the sale of the building and the disposal of assets that occurred during 2012.

Liquidity and capital resources

Net cash provided by operating activities was $512,989 for the six months ended June 30, 2013, as compared to net cash provided by operating activities of $265,826 during the six months ended June 30, 2012. The primary difference corresponds to the timing of payment/reimbursement on the E&O insurance, to the elimination of the Omega Drilling asset, and to the goodwill impairment recorded in 2012.

Net cash used in investing activities was $17,751 for the six months ended June 30, 2013, compared to net cash provided by investing activities of $927,337 for the six months ended June 30, 2012. The primary difference corresponds with the sale of the building and the disposal of assets that occurred during 2012.

Net cash used in financing activities was $170,841 for the six months ended June 30, 2013, compared to net cash used in financing activities of $1,109,825 for the six months ended June 30, 2012. The primary difference corresponds with the early repayment of the promissory note with PawnMart.

At June 30, 2013, the Company held $1,546,003 in cash and cash equivalents, as compared to $1,012,368 at June 30, 2012. The Company is required to maintain certain levels of cash and liquid securities in CFS to meet regulatory net capital requirements.

On August 9, 2013, the Company signed loan documents for a line of credit with a local bank, American Bank Center, in the amount of $300,000 in order to help fund the anticipated stock split. The line of credit has a variable interest rate of 1.509 percent above Wall Street Journal U.S. Prime Rate. The Company will make monthly interest payments beginning September of 2013. The loan matures with the principal due on August 8, 2014. As of the Q filing date, no funds from the line of credit have been disbursed to the Company.

The Company has historically relied upon sales of its equity securities and debt instruments, as well as bank loans, for liquidity and growth. Management believes that the Company’s existing liquid assets, along with cash flow from operations, will provide the Company with sufficient resources to meet its ordinary operating expenses during the next twelve months. Significant, unforeseen or extraordinary expenses may require the Company to seek alternative financing sources, including common or preferred share issuance or additional debt financing.

In addition to the liabilities coming due in the next twelve months, management expects that the principal needs for cash may be broker recruitment, repurchase shares of the Company’s common stock, and debt service. Management also expects to realize increases in consultant expenses as well as increased compliance and legal costs with respect to its broker dealer subsidiary related to regulatory and litigation matters.

FORWARD-LOOKING STATEMENTS

When used herein, in future filings by the Company with the Securities and Exchange Commission (“SEC”), in the Company's press releases, and in other Company-authorized written or oral statements, the words and phrases "can be," "expects," "anticipates," "may affect," "may depend," "believes," "estimate," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Such statements are subject to certain risks and uncertainties, including those set forth in this "Forward-Looking Statements" section, which could cause actual results for future periods to differ materially from those presently anticipated or projected. The Company does not undertake and specifically disclaims any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statements.
Forward-looking statements include, but are not limited to, statements about the Company's:

- Business strategies and investment policies,
- Possible or assumed future results of operations and operating cash flows,
- Financing plans and the availability of short-term borrowing,
- Competitive position,
- Potential growth opportunities,
- Recruitment and retention of the Company's key employees,
- Potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,
- Likelihood of success and impact of litigation,

- Expected tax rates,
- Expectations with respect to the economy, securities markets, the market for merger and acquisition activity, the market for asset management activity, and other industry trends,
- Competition, and
- Effect from the impact of future legislation and regulation on the Company.

The following factors, among others, could cause actual results to differ materially from forward-looking statements, and future results could differ materially from historical performance:

- General political and economic conditions which may be less favorable than expected;
- The effect of changes in interest rates, inflation rates, the stock markets, or other financial markets;
- Unfavorable legislative, regulatory, or judicial developments;
- Adverse findings or rulings in arbitrations, litigation or regulatory proceedings;
- Incidence and severity of catastrophes, both natural and man-made;
- Changes in accounting rules, policies, practices, and procedures which may adversely affect the business;
- Terrorist activities or other hostilities which may adversely affect the general economy.

The Company is a financial services holding company that, through its broker dealer subsidiary, provides brokerage, investment advisory, insurance and related services. The Company operates in a highly regulated and competitive industry that is influenced by numerous external factors such as economic conditions, marketplace liquidity and volatility, monetary policy, global and national political events, regulatory developments, competition, and investor preferences. The Company's revenues and net earnings may be either enhanced or diminished from period to period by such external factors. The Company remains focused on continuing to reduce redundant operating costs, upgrade operating efficiency, recruit quality representatives and grow our revenue base. The Company provides broker-dealer services in support of trading and investment by its representatives' customers in corporate equity and debt securities, U.S. Government securities, municipal securities, mutual funds, private placement alternative investments, variable annuities and variable life insurance. The Company also provides investment advisory services for its representative's customers

A key component of the broker-dealer subsidiary's business strategy is to recruit well-established, productive representatives who generate substantial revenues from an array of investment products and services. Additionally, the broker-dealer subsidiary assists its representatives in developing and expanding their business by providing a variety of support services and a diversified range of investment products for their clients.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable as a Smaller Reporting Company

Item 4. Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15c-14(c) under the Exchange Act) as of the end of the period covered by this report, pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2013, and that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed and summarized, and reported within the time periods specified by the SEC's rules and forms.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration and regulatory investigations. Issuers of certain alternative products sold by the Company are in Chapter 11 Bankruptcy or may have other financial difficulties. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to several legal and/or arbitration proceedings. These proceedings include customer suits and arbitrations related to the bankruptcy of the KH Funding Company, and the bankruptcy proceedings of the various DBSI entities RMC Medstone and Cole Credit Property Trust. The Company vigorously contests the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and as such, the Company is unable to estimate the possible loss or range of loss that may result from the outcome of these cases; however, results in these cases that are against the interests of the Company could have a severe negative impact on the financial position of the Company. At June 30, 2013, the Company is a defendant in three on-going suits and arbitrations as discussed above. The Company expects any possible settlement, if any, to be below the maximum limits of coverage under our liability insurance policy and any amounts of shared coverage by the Company, to the insurance Company is not material to the financial statements. However, the Company expects to prevail in these cases. During 2012, the Company settled lawsuits that will require $44,000 in payments during 2013 and 2014. During the second quarter of 2013, an agreement for one of the arbitrations mentioned above was reached. On May 7, 2013, the Company made payment of approximately $19,000 to their insurance provider in order to satisfy this agreement. No further payments will be required on the aforementioned settled lawsuits.

Item 1A. Risk Factors

Not Applicable as a Smaller Reporting Company

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company has issued the following securities in the past quarter without registering the securities under the Securities Act:

None

Small Business Issuer Repurchases of Equity Securities:

In November of 1997, the Board of Directors of the Company authorized the repurchase of up to $2,000,000 of its outstanding common stock from time to time in the open market. The table below displays the dollar value of shares that may yet be purchased under this plan.

Period	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or	Approximate Dollar Value of Shares That May Yet Be Purchased Under the

			Programs	Plans or Programs
April 2013	-	-	-	$597,754
May 2013	-	-	-	$597,754
June 2013	-	-	-	$597,754
Total	-	-	-	$597,754

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

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Item 5. Other Information

None

Item 6. Exhibits

Exhibits

31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act and Rules 13a-14(a) and 15d-14(a) of the Exchange Act
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act and 18 U.S.C. Section 1350

CAPITAL FINANCIAL HOLDINGS, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CAPITAL FINANCIAL HOLDINGS, INC.
Date: August 14, 2013	By /s/ John Carlson John Carlson Chief Executive Officer & President (Principal Executive Officer)
Date: August 14, 2013	By /s/ Elizabeth Redding Elizabeth A. Redding Chief Financial Officer & Corporate Secretary (Principal Financial Officer)